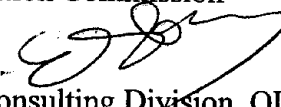




AUD-7-7-18 (1809 / 99)

17 November 1999

To: Mr. Jean-Claude Aimé, Executive Secretary
United Nations Compensation Commission

From: Esther Stern, Director 
Audit and Management Consulting Division, OIOS

Subject: OIOS Consulting review of UNCC's budgetary procedures (AE1999/8/3)

1. I am pleased to submit to you the results of our consulting review of UNCC's budgetary procedures, which was conducted from 25 October to 6 November 1999 according to the terms of reference outlined in the notification letter dated 19 October 1999.
2. I would appreciate it if you could provide me with the minutes of the meeting of the Governing Council on 18 November 1999 where this report will be presented.
3. I would also like to thank the staff and Executive Officer of UNCC for their assistance and cooperation.

Copy to:
Planning and Compliance Officer, OIOS
UN Board of Auditors
Ms. C. Chavez





United Nations
OFFICE OF INTERNAL OVERSIGHT SERVICES
Audit and Management Consulting Division

Management Consulting Report

- **Consulting subject:** Consulting Review of the United Nations
Compensation Committee's Budgetary Procedures
 - **Consulting No. and location:** AE1999/8/3, Geneva
 - **Report date:** 17 November 1999
- **Consulting team:** Tetsuya Hirano, Auditor-in-Charge;
Daniela Maniu, Assisting Auditor

CONSULTING REVIEW OF UNCC'S BUDGETARY PROCEDURES (AE1999/8/3)

Executive Summary

The management of the United Nations Compensation Commission (UNCC) requested the Office of Internal Oversight Services (OIOS) to review UNCC's current budgetary procedures to assess its compliance with relevant United Nations regulations and rules in preparing the budget. OIOS carried out this request in November 1999.

OIOS based its review on The Financial Regulations and Rules of the United Nations, The Regulations and Rules Governing Programme Planning, the Programme Aspects of the Budget, the Monitoring of Implementations and the Methods of Evaluation and the Instructions for the Proposed Programme Budget for the Biennium 2000-2001. Since UNCC is a subsidiary organ of the United Nations Security Council, their budgetary procedures may differ from those applied to other organisations of the United Nations.

OIOS overall assessment

UNCC's current budgetary procedures are in accordance with the above stated United Nations regulations, rules and instructions. OIOS recommends that UNCC consider including in the proposed budget, comparative figures for two biennia. The review noted an error in the draft budget that had no material effect on UNCC's overall budgetary procedures. The mistake was subsequently corrected through a corrigendum.

- *Applicability of the relevant regulations and rules of the United Nations*
UNCC is clearly aware of the applicability of the above-mentioned United Nations Regulations and Rules as well as pertinent instructions. The UNCC Executive Officer ensures that UNCC complies with them in preparing the budget.
- *Current procedures for the budget process, monitoring and control of expenditures and use of consultants*
UNCC maintains written procedures for (i) the budget process; (ii) expenditure monitoring and control; and (iii) the use of consultants. UNCC applies specific written specific procedures that supplement United Nations rules and regulations. The outlined procedures appear appropriate and are in line with other United Nations regulations and rules.
- *Presentation format*
UNCC's presentation format used in the proposed budget for the biennium 2000-2001, was generally in accordance with the Instructions for the Proposed Programme Budget for the Biennium 2000-2001, e.g. resource allocation. However, there were no comparative figures for the two prior bienniums.
- *Basis of the budget*
UNCC's budget was properly prepared, providing appropriate divisions equivalent to

parts, sections and programmes. UNCC based its proposed resource requirements on the staffing of each substantive activity. Further, it also based its budget divisions on the type of claims and functions of the offices, which were all adequately explained in the budget. OIOS, therefore, is of the opinion that the narratives for substantive activities were reasonable and conformed with the provisions of The Regulations and Rules Governing Programme Planning the Programme Aspects of the Budget, the Monitoring of Implementation and the Methods of Evaluation;

- *Finalising the draft*

OIOS noted inconsistent data in the budget document resulting from the inclusion of identical staffing tables for 2000 and 2001. UNCC was not aware of the error at the time of OIOS review, and had already submitted its reviewed draft to the Governing Council Secretariat for finalising. This clerical error occurred in the editorial stage of budget finalisation, and was an isolated matter which had no material impact on the overall budgetary procedures. However, OIOS advised UNCC to establish quality review procedures to prevent similar occurrences in the future.

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CONSULTING REVIEW OF UNCC'S BUDGETARY PROCEDURES (AE1999/8/3)

I. INTRODUCTION

1. The management of the United Nations Compensation Commission (UNCC) requested the Office of Internal Oversight Services (OIOS) to review the current budgetary procedures to assess their compliance with the relevant United Nations regulations and rules. OIOS carried out this request in November 1999.

2. OIOS based its review on The Financial Regulations and Rules of the United Nations, The Regulations and Rules Governing Programme Planning, the Programme Aspects of the Budget, the Monitoring of Implementations and the Methods of Evaluations and the Instructions for the Proposed Programme Budget for the Biennium 2000-2001.

II. BACKGROUND

3. UNCC is a subsidiary organ of the United Nations Security Council. It was established by the Council in 1991 to process claims and pay compensation for losses resulting from Iraq's invasion and occupation of Kuwait. According to the recommendation of the Secretary-General, UNCC functions under the authority of the Security Council and it is comprised of the Governing Council, panels of Commissioners and a secretariat.

4. The Governing Council is the organ of UNCC that sets its policy within the framework of relevant United Nations Security Council resolutions. As such, it establishes the criteria for the compensability of claims, the rules and procedures for processing the claims, the guidelines for the administration and financing of the Compensation Fund and the procedures for the payment of compensation. The Governing Council reports regularly to the Security Council on the Commission's work.

5. The budget proposal for the 2000-2001 biennium will be the UNCC's penultimate budget presentation. UNCC's annual budget submissions have been presented for each year since 1991 to 1997, followed by the first biennial budget submission for the 1998-1999 period just ending. All prior budgets have discussed an expansion of activities; the present proposal leads to the ending phase of UNCC. The final submission for the 2002-2003 biennium will complete that process, with only a skeleton staff remaining at the end of 2003, to handle payments and other liquidation activities.

6. The proposed budget for the biennium 2000-2001 amounts to \$99.6 million, broken down into \$49.9 million and \$49.7 million for 2000 and 2001, respectively. For comparison purposes, OIOS noted that the approved budget for 1998 and the revised proposed budget for 1999 were \$39.6 million and \$53.0 million, respectively.

III. SCOPE AND OBJECTIVES

7. OIOS's primary objective was to review the application of budgetary procedures as represented by UNCC to its Governing Council to ensure their compliance with the regulations and rules of the United Nations. Therefore, the scope of this engagement did not include a review of the UNCC financial statements.

8. Consistent with the above objective, we reviewed and assessed UNCC's budgetary procedures as they related to:

- a) Applicability of the regulations and rules of the United Nations,
- b) Compliance with procedures for budget approval, monitoring and cost estimates,
- c) Presentation format of the budget,
- d) Basis of the budget,
- e) General administrative procedures and controls.

IV. METHODOLOGY

9. The review was conducted in line with OIOS standards and guidelines for management consulting services. It involved the review of the UNCC Work Programme (1997-2003); Information Notes for the UNCC Budget Process and for the United Nations Procurement System and Use of Consultants by UNCC; Monitoring and Control of UNCC Expenditures; analytical review of the Proposed and Revised Budget for the Biennium 1998-1999 and the Proposed Budget for the biennium 2000-2001. We also reviewed working papers and input documents that supported the budget, and conducted interviews with the UNCC Executive Officer.

10. OIOS based its review on the Financial Regulations and Rules of the United Nations, The Regulations and Rules Governing Programme Planning, the Programme Aspects of the Budget, the Monitoring of Implementations and the Methods of Evaluation (the Programme Regulations) and the Instructions for the Proposed Programme Budget for the Biennium 2000-2001 (the Budget Instructions). OIOS also took into account that UNCC's budgetary procedures might differ from those applied to other organizations of the United Nations due to its status as a subsidiary organ of the United Nations Security Council.

V. REVIEW OF UNCC'S BUDGETARY PROCEDURES

A. Applicability of the regulations and rules of the United Nations

11. The Information Note for the UNCC Budget Process states that "*The United Nations Financial Rules and Regulations clearly define, inter alia, the budgetary process to be followed for all official programmes. This relates specifically to the "regular budget" of the Organization, which is funded through assessed contributions of all member states, but also applies to extrabudgetary programmes as well.*"

12. Further, Monitoring and Control of UNCC Expenditures also states that *"The Financial Regulations and Rules of the United Nations govern all aspects of the receipt, management and disbursement of funds, and establish detailed procedures to ensure financial control. These procedures address, inter alia, budgeting, appropriations, contracts and purchases, payments, accounting records, reports and financial statements and auditing."*

13. The above statements indicate that UNCC recognises the regulations and rules of the United Nations as standards. In an interview, the Executive Officer confirmed the use of the regulations and rules in UNCC's budget preparation. Based on a comparison of UNCC procedures for budget approval, monitoring and cost estimates with those of the UN regular budget, OIOS agrees with the interpretation of UNCC as to the applicability of the regulations and rules of the United Nations to UNCC.

B. Compliance with procedures for budget approval, monitoring and cost estimates

14. As stated above, although UNCC confirms its overall responsibility to comply with the regulations and rules of the United Nations, a notable difference in the budgeting process is also stated in the note. The UNCC Budget Process states that *"... the UNCC and UNSCOM budgets should not be subject to General Assembly approval, nor pass through the same reviews. Instead, it was decided that those budgets would be treated as special accounts under the authority of the Controller."*

15. OIOS noted that there was an incongruity in the existing budget process wherein the Office of the Controller reviewed and approved the UNCC budget after approval by the Governing Council, and wherein the role of the Committee on Administrative Matters (CAM) culminated in the budget's adoption by the Governing Council prior to submission to the Controller. The solution for this dilemma was given in the same note as *"... it was agreed that the approval of the Governing Council should be considered definitive, on which basis the Office of the Controller would immediately allocate funds. The Controller would, however, be provided with an advance copy of the budget proposal, on which he could comment at his discretion, prior to approval."* Despite those exceptions to the budgeting procedures of UNCC, the Controller still remains in an appropriate position to monitor the entire UNCC budget process.

16. OIOS reviewed the rest of the notes and observed the specific approaches that were unique to UNCC (e.g. determination of budgetary estimates for consultants, relationship between consultants, panels and the secretariat), which were adequately described in the notes. The review did not disclose any departures from the regulations and rules of the United Nations in the notes.

C. Presentation format

17. OIOS reviewed the presentation format of the UNCC Proposed Budget of the Executive Secretary for the Biennium 2000-2001 in the light of the respective regulations and rules in the Programme Regulations and in the Budget Instructions. Rule 104.3 of the Programme Regulations states that *"For substantive activities, programme budget submissions to the*

Secretary General will provide, at the appropriate level, data on resources required, such as Professional work months, travel, consultants and other relevant objects of expenditure. ..The programme narrative describing servicing activities shall include, where possible, quantitative indicators measuring the services rendered and showing any expected change in productivity during the biennium.” In addition, a specific budget structure is also provided in the Budget Instructions.

18. OIOS reviewed fascicles section by section consisting of narratives, resources tables and resource justification in the UNCC Proposed Budget of the Executive Secretary for the Biennium 2000-2001. OIOS is of the opinion that the overall format being used for the UNCC budget is generally in accordance with the Instructions, except that the resources tables for the previous two bienniums were not included. No other material departure in the format was noted.

D. Basis of the budget

19. Regulation 3.6 of the Programme Regulations states that *“The plan shall be presented by programme and objective, and not by organizational unit. It shall emphasize the description of objectives and strategies; the presentation and format of the analysis provided therein shall vary according to the type and nature of activities...”* Also Rule 104.1 of the Programme Regulations states that *“...the subprogramme structure of the programme budget shall be identical to that of the plan unless a change in the subprogramme structure has been authorized under a subsequent legislative mandate.”*

20. UNCC identified the resource requirements based on the schedule of processing the claims, i.e. based on staffing. The plan for each claim process team was clearly stated and revised according to the UNCC Work Programme (1997-2003) which outlines the overall operational framework. The work for the current year was adequately determined with reasonable explanations for changes from the previous year. This approach also appears to be in line with the Budget Instruction which states *“The resource requirements that will be included in narrative form must be based on staffing and dollar amounts to be included...”* and *“...each abolition should have been clearly stated and its impact on the delivery of programmes or services clearly explained as is the case for any request for increases in the number of posts.”*

21. As a part of the salary calculations, UNCC uses standard costs that represent 95 percent of the full United Nations Geneva standard budgeting costs. Further, 75 percent of the full value, (i.e. the standard United Nations rate), is being applied to the new posts in 2000. OIOS observed that the changes to the basis for budget calculations are properly disclosed in the Proposed Budget of the Executive Secretary for the Biennium 2000-2001. Therefore, OIOS is of the opinion that the basis used for UNCC’s budget is appropriate, adequately disclosed and in accordance with the relevant regulations and rules of the United Nations.

E. Editorial problem with finalising the draft

22. During the review of UNCC's budgetary procedures, OIOS observed that UNCC used two identical staffing tables for 2000 and 2001 in the Proposed Budget of the Executive Secretary for the Biennium 2000-2001. Based on interviews with the Executive Officer of UNCC, it was considered to be an error that happened after submission of the draft to the Governing Council Secretariat for finalising. This error involved conversion of data prepared with non-compatible applications. After conversion, the table in question appeared as text format in the budget document.

23. Due to the absence of established editorial procedures for finalising the documents, UNCC overlooked this clerical error. OIOS reviewed all relevant working papers as well as input sheets from UNCC's substantive offices and noted that the supporting documents were consistent with the final version of the draft as to the resource requirements. Based on the review, OIOS is of the opinion that the error was an isolated matter and that there was no material impact on the overall budgetary procedures. However OIOS urges the Management of UNCC to improve quality review procedures to prevent similar errors in the future.

F. Conclusion

24. Based on OIOS consulting review carried out according to the above stated scope and methodology, OIOS is of the opinion that UNCC's current budgetary procedures are in accordance with the relevant regulations and rules of the United Nations. OIOS's review did not disclose any material departure from the regulations and rules.

VI. ACKNOWLEDGEMENT

25. We wish to thank the Executive Officer and staff of UNCC for their assistance. We also wish to express our appreciation to the Executive Secretary whose cooperation made this review possible.



Esther Stern
Director

Audit and Management Consulting Division, OIOS

